



BOARD OF TRUSTEES
Florida Atlantic University

Item: AF: I-4e

AUDIT AND FINANCE COMMITTEE
Tuesday, February 18, 2014

SUBJECT: REVIEW OF THE FINANCIAL STATEMENTS OF FAU DIRECT SUPPORT ORGANIZATIONS: FAU CLINICAL PRACTICE ORGANIZATION FINANCIAL REPORT FOR THE PERIOD ENDED JUNE 30, 2013.

PROPOSED COMMITTEE ACTION

Information only.

BACKGROUND INFORMATION

The audited financial statements of the FAU Clinical Practice Organization (FAU CPO) are presented to keep the Board of Trustees informed about the financial status of the Corporation. The audited financial statements are for the period ended June 30, 2013 and were presented to the FAU CPO Board of Directors on November 18, 2013.

IMPLEMENTATION PLAN/DATE

Not Applicable.

FISCAL IMPLICATIONS

Not Applicable.

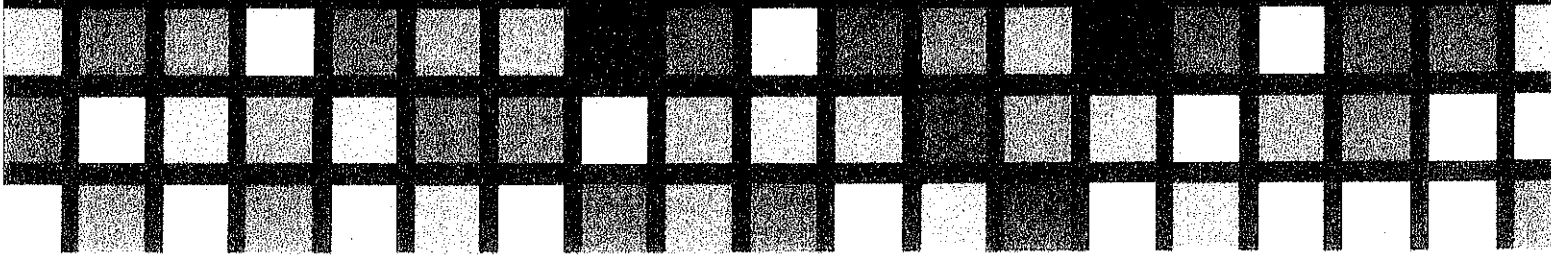
Supporting Documentation: FAU CPO Financial Report for the Year Ended June 30, 2013.

Presented by: Ms. Dorothy Russell, Interim Senior VP-Financial Affairs
Dr. David Bjorkman, Dean-College of Medicine

Phone: 561-297-3267
Phone: 561-297-4341

**FAU Clinical Practice
Organization, Inc.
(A component unit of Florida
Atlantic University)**

Financial Report
For the Year Ended June 30, 2013



Contents

Independent Auditor's Report	1 – 2
Management's Discussion & Analysis (unaudited)	3
Financial Statements	
Statement of net position	4
Statement of revenue, expenses, and changes in net position	5
Statement of cash flows	6
Notes to financial statements	7 – 11



Independent Auditor's Report

To the Board of Directors
 FAU Clinical Practice Organization, Inc.
 Boca Raton, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of FAU Clinical Practice Organization, Inc. (the "Organization"), a component unit of Florida Atlantic University, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Organization, as of June 30, 2013, and the respective changes in financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2013 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Organization's internal control over financial reporting and compliance.



Fort Lauderdale, Florida
December 5, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the FAU Clinical Practice Organization, Inc., a component unit of Florida Atlantic University (hereafter "University") for the fiscal year ended June 30, 2013, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of the FAU Clinical Practice Organization, Inc.'s (the "Organization") management. Pursuant to GASB Statement No. 35, the Organization's financial report includes three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows.

FINANCIAL HIGHLIGHTS

The Organization was incorporated on May 3, 2011 as a not-for-profit organization under Chapter 617, Florida Statutes. It was established to promote and support medical education, research and distribution of funds, exclusively for the support of the mission and objectives of the University, its Charles E. Schmidt College of Medicine, its Christine E. Lynn College of Nursing and other participating colleges or units within the University, in accordance with the University's College of Medicine Faculty Practice Plan and other faculty practice plans adopted by the University pursuant to Florida Board of Governor's Regulation 9.017.

The Organization's revenues totaled \$515 thousand for the 2012-13 fiscal year, representing medical staffing and patient service revenues. Expenses totaled \$306 thousand for the 2012-2013 fiscal year, representing operating expenses associated with the direct operations of the Organization. Other operating expenses are administrative expenses of the Organization, such overhead charges, audit fees, and supplies.

REQUESTS FOR INFORMATION

Questions concerning information provided in the financial statements and notes thereto, and other required supplemental information or requests for additional financial information should be addressed to the Senior Vice President for Financial Affairs, FAU Clinical Practice Organization, 777 Glades Road, Boca Raton, Florida 33431.

FAU Clinical Practice Organization, Inc.

**Statement of Net Position
June 30, 2013**

Assets

Current Assets:

Cash in bank	\$ 180,982
Accounts receivable, less allowance for doubtful accounts of \$45,986	128,267
Total assets	\$ 309,249

Liabilities:

Current liabilities – accounts payable	\$ 11,000
--	-----------

Total unrestricted net position	298,249
Total liabilities and net position	\$ 309,249

See Notes to Financial Statements

FAU Clinical Practice Organization, Inc.

**Statement of Revenue, Expenses and Changes in Net Position
For the Year Ended June 30, 2013**

<hr/>	
Operating Revenues:	
Patient service revenue (net of contractual allowances and discounts)	\$ 440,081
Provision for bad debts	(45,986)
Net patient service revenue	<u>394,095</u>
Medical staffing revenue	120,445
Total revenues	<u>514,540</u>
Operating Expenses:	
Personnel costs	210,385
Insurance	12,842
Contracted services	42,893
Other expenses	39,396
Total operating expenses	<u>305,516</u>
Operating income	<u>209,024</u>
Changes in net position	209,024
Net position:	
Beginning	89,225
Ending	<u>\$ 298,249</u>

See Notes to Financial Statements

FAU Clinical Practice Organization, Inc.

**Statement of Cash Flows
For the Year Ended June 30, 2013**

Cash Flow From Operating Activities	
Cash received from customers	\$ 386,152
Cash paid to suppliers	<u>(302,465)</u>
Net increase in cash	<u>83,687</u>
 Cash	
Beginning	97,295
Ending	<u><u>\$ 180,982</u></u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Net operating income	\$ 209,024
Increase in accounts payable	3,000
Decrease in due to University	(70)
Increase in accounts receivable	<u>(128,267)</u>
Net cash provided by operating activities	<u><u>\$ 83,687</u></u>

See Notes to Financial Statements

FAU Clinical Practice Organization, Inc.

Notes to Financial Statements

Note 1. Description and Nature of Organization and Significant Accounting Policies

On May 3, 2011, the FAU Clinical Practice Organization, Inc. (the "Organization") was incorporated as a not-for-profit organization under Chapter 617, Florida Statutes. The Organization is a component unit of the Florida Atlantic University (the "University"), a part of the State university system of public universities. It was established to promote and support medical education and research and distribution of funds, exclusively for the support of the mission and objectives of the University, its Charles E. Schmidt College of Medicine, its Christine E. Lynn College of Nursing and other participating colleges or units within the University, in accordance with the University's College of Medicine Faculty Practice Plan and other faculty practice plans adopted by the University pursuant to Florida Board of Governor's Regulation 9.017. The governing body of the Organization is its Board of Directors (the "Board").

The Board is comprised of a maximum of eleven (11) directors who are responsible for managing, supervising and controlling the business, property, affairs and funds of the Organization. In the event of dissolution of the Organization, all remaining assets, after payment of Organization's debts, shall be for use only by the College of Medicine, the College of Nursing, or other participating colleges or units within the University, or if the University has ceased to exist, to other entities that are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code as directed by the Board of Governors of the State of Florida. Consequently, the Organization meets the criteria for inclusion in the University's reporting entity as a component unit.

A summary of the Organization's significant accounting policies follows:

Basis of presentation: The Organization is engaged in a single business-type activity whose operations are primarily supported by user fees and charges. The principal statements were prepared in accordance with Government Accounting Standards Board ("GASB") codification section 2100, which establishes standards for defining and reporting of the financial reporting entity. The Organization maintains a proprietary fund which reports transactions related to activities similar to those found in the private sector. As such, the Organization presents only the statements required of enterprise funds, which include the statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows.

The statement of net position reports assets plus deferred outflows of resources, liabilities plus deferred inflows of resources; and the difference between them as net position / deficit. Net position represents the residual interest in the Organization's assets. Net position is reported as restricted when constraints are imposed by third parties or enabling legislation. The Organization's net position is unrestricted as there are no restrictions on the residual interest in the Organization's assets.

The accounting and financial reporting treatments applied to a fund are determined by its measurement focus. The Organization's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Accounting estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and deferred inflow/outflow and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FAU Clinical Practice Organization, Inc.

Notes to Financial Statements

**Note 1. Description and Nature of Organization and Significant Accounting Policies
(Continued)**

Medicare: Services rendered to Medicare program beneficiaries are primarily paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Organization is reimbursed on an interim basis at a tentative rate, which is recalculated and adjusted to actual claims, with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the Medicare fiscal intermediary. Retroactive adjustments for cost report settlements are reported in the periods when final settlements are determined.

Medicaid: Services rendered to Medicaid program beneficiaries are reimbursed under a cost-reimbursement methodology. The Organization is reimbursed at a tentative rate, with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the Medicaid fiscal intermediary. Retroactive adjustments for cost report settlements are reported in the periods when final settlements are determined.

Other payers: The Organization has also entered into payment arrangements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Organization under these arrangements includes prospectively determined rates per discharge and discounts from established charges. Some of these arrangements provide for review of paid claims for compliance with the terms of the contract and result in retroactive settlement with third parties. Retroactive adjustments for other third-party claims are recorded in the period when final settlement is determined.

Accounts Receivables

Accounts receivable as of June 30, 2013 are comprised of the following:

Medical staffing: The balance represents charges for medical staffing services provided prior to the end of the fiscal year but not yet collected. Allowances for doubtful accounts are recorded based on management's best estimate as of the fiscal year end considering type, age, collection history, and other factors deemed appropriate. At fiscal year end, \$64,059 were due from third parties for medical staffing services provided

Patient receivables: Patient receivables, where a third party is responsible for paying the amount, are carried at a net amount determined by the original charge for the services provided, less an estimate made for contractual adjustments or discounts provided to third-party payers.

Accounts receivable is presented net of allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Organization analyzes its activity and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely). The Memory and Wellness Center and Diabetes Education and Research Center have a 57.8 percent and 45.1 percent contractual allowance rate, respectively.

FAU Clinical Practice Organization, Inc.

Notes to Financial Statements

**Note 1. Description and Nature of Organization and Significant Accounting Policies
(Continued)**

The Organization does not maintain a material allowance for doubtful accounts from third-party payers, nor did it have significant write-offs from third-party payers.

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for bad debts in the period of service on the basis of its past experience. The Organization handles receivables associated with self-pay patients in two different manners depending on which center the patient was seen at. For the Memory and Wellness Center there is no allowance for doubtful accounts recorded for self-pay patients with deductibles and copayment balances as of June 30, 2013 since self-paying patient balances at this center are current and are anticipated to be collected. For the Diabetes Education and Research Center, a significant provision for bad debts is recorded as of June 30, 2013. This is due to 76 percent of the patient population being uninsured which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The Organization's allowance for doubtful accounts on self-pay patients was 45 percent of the year end self-pay patient receivable balance.

The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

At fiscal year end, \$64,208 was due from third party payers and self-pay patients for medical services provided. The components of patient receivables at June 30, 2013 are summarized as follows:

	Memory and Wellness Center	Diabetes Education and Research Center	Nursing Clinical Activities	Total
Accounts receivable, gross	\$ 129,407	\$ 101,290	\$ -	\$ 230,697
Reserve for contractual adjustments	(74,836)	(45,667)	-	(120,503)
Reserve for uncollectible accounts	-	(45,986)	-	(45,986)
Total	\$ 54,571	\$ 9,637	\$ -	\$ 64,208

Patient service revenue and net patient service accounts receivable as of and for the year ended June 30, 2013, included amounts from the following payers for each medical center:

Payers	Memory and Wellness Center	Diabetes Education and Research Center	Nursing Clinical Activities
Medicare	68%	2%	0%
Medicaid	0%	12%	0%
Insurance	18%	10%	0%
Self-pay	14%	76%	0%
Aid to Victims of Domestic Abuse (AVDA)	0%	0%	100%
Total	100%	100%	100%

FAU Clinical Practice Organization, Inc.

Notes to Financial Statements

Note 2. Cash

Custodial credit risk: Custodial credit risk for deposits; is the risk that in the event of the failure of a depository financial institution, an entity will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. It is the Organization's policy to require that time deposits in excess of FDIC insurable limits be secured by collateral or private insurance to protect public deposits in a single financial institution if it were to default. Under Florida statutes, Chapter 280, Florida Security for Public Deposits Act, the State Treasurer requires all qualified public depositories to deposit with the Treasurer or another banking institution, eligible collateral equal to between 50% and 125% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held.

The percentage of eligible collateral (generally, U.S. government and agency securities, state or local government debt, corporate bonds) to public deposits is dependent upon the depository institution's financial history and its compliance with Florida Statutes, Chapter 280. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses.

Note 3. Related Party Transactions

The Organization paid the University \$20,067 for personnel and administrative support provided to aid in its operations.

Note 4. Risk Management

The Organization is a protected entity under the Florida Atlantic University College of Medicine Self-Insurance Program.